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SUBJECT: COLOMBIA MEETS IMF FISCAL DEFICIT TARGETS

1. (U) The GOC announced February 25 that it met the IMF target of 2.8 percent of GDP for its 2003 fiscal deficit. The GOC cut current expenditures and froze some investment projects, especially in the energy sector, in order to achieve this result. The announcement was greeted positively by market analysts, but they tempered their enthusiasm, noting that the GOC may have difficulty meeting the 2004 deficit of 2.5 percent of GDP as a result of current structural problems, such as growing public debt (52.7 percent of GDP) and the current pension crisis. While international investors welcomed the announcement, they are also worried about these factors.

2. (SBU) According to Fitch Ratings staff, the news that the overall public sector balance was consistent with the revised 2.8 percent of GDP target was positive. However, higher than expected economic growth of 3.8 percent (Twice the original 2 percent growth target) had led to expectations that the GOC would surpass the target. Furthermore, the rigidity of expenditures and the automatic increase in transfers make the 2004 deficit target a difficult one.

3. (SBU) Comment. The Colombian government's ability to meet the 2004 deficit target will depend on continued growth of 3.5 to 4 percent and the resulting increase in revenues. Further tax reforms seem unlikely (although the GOC has publicly committed to pursuing them in 2004) and efforts to reform the pension system or limit transfer growth will likely not enter into effect this year. The GOC's strategy to meet the 2004 deficit depends on three items: 1) further investment and discretionary spending cuts; 2) increased tax collection (both through increased efficiency and economic growth); and 3) the sale of public assets. The first attempt to sell off assets, the sale of the National Coffee Bank, failed to bring in any bidders, however. The government can control its discretionary spending and investment, but potential savings from these items will not be enough to guarantee the fiscal deficit levels. End Comment.

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